



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** March 18, 2008

**TO:** Mayor and Councilmembers

**FROM:** Human Resources, Administrative Services Department

**SUBJECT:** Medicare-Only Coverage For Eligible PERS Miscellaneous Members

### RECOMMENDATION:

That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Authorizing Execution of the Application and Agreement for Medicare-Only Coverage for Eligible PERS Miscellaneous Members.

### DISCUSSION:

Employees hired by the City prior to April 1, 1986, and continuously employed by the City since that time are not subject to the Medicare payroll tax. Therefore, many of these employees may not have earned the necessary service credit to be Medicare-eligible upon reaching age 65. By federal law, all employees hired since April 1, 1986, are subject to the Medicare payroll tax. The Medicare payroll tax is 1.45% of pay on both the employee and the employer (2.90% total).

A number of the employees hired before, and continuously employed since, April 1, 1986, requested that the City undertake a process to allow them to individually elect to begin paying the Medicare payroll tax in order to earn the necessary service credit to qualify for Medicare coverage at age 65. As established by federal law, the California Public Employees Retirement System (PERS) is charged with overseeing this process for public employers.

The City Council adopted Resolution No. 07-067 on August 1, 2007, requesting authorization of PERS to conduct a Division (election process) among eligible members of the retirement system to elect Medicare-Only coverage. With PERS authorization, and in accordance with State requirements, the City conducted an election on January 7, 2008 of 106 eligible employees, for individual and irrevocable employee elections to choose either to be included under Medicare-Only covered employment, or to continue Medicare exempt

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REVIEWED BY: \_\_\_\_\_ Finance \_\_\_\_\_ Attorney \_\_\_\_\_ Name of Additional Department(s) That Need to Review CAR

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Agenda Item No. \_\_\_\_\_

employment status. The resolution established July 1, 2007 as the effective date to implement Medicare-covered employment.

A total of 43 employees elected Medicare-Only coverage and 63 declined coverage. With the death of one employee since the election, 42 employees will be included under Medicare-Only coverage. The election results have been certified and reported to PERS. To proceed with the next step, PERS issued the attached State resolution form and Medicare-Only Application-Agreement for execution with the State. The Application-Agreement provides authorization of the State to request inclusion of the City in the master Social Security agreement with the federal government.

The State will notify the City when the federal government approves the Medicare-Only coverage, at which time the City will be directed to deposit all Medicare taxes directly with the Internal Revenue Service (IRS) retroactive to July 1, 2007. It is estimated that federal approval for Medicare-Only coverage will be finalized by July 2008.

Employee election information disclosed that, if electing coverage, a lump sum payroll tax of 1.45% of wages will be charged on all wages retroactive to July 1, 2007, and a payroll tax of 1.45% of wages will be charged going forward each pay period, subject to legislative tax rate changes by the federal government.

#### **BUDGET/FINANCIAL INFORMATION:**

Medicare-Only coverage has an implementation date of July 1, 2007. Final federal approval is anticipated in July 2008. At that time, the City and the 42 employees electing coverage will be required to make the required lump sum payment of Medicare taxes based on actual wages retroactive to July 1, 2007.

Using current wage data for the 42 employees, the required total lump payment of Medicare taxes is estimated at \$89,000; half of which is paid by the City, \$44,500, and half to be paid by employees. In addition, the on-going cost of the Medicare tax on an annualized basis is estimated in the same amount of \$89,000; half of which is paid by the City, \$44,500, and half to be paid by employees.

**PREPARED BY:** Clare Turner, Benefits Analyst

**SUBMITTED BY:** Marcelo A. López, Administrative Services Director

**APPROVED BY:** City Administrator's Office